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1966 Annual Report

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Highlights of 1966

	1966	1965
Operating		
Seat miles produced	4,336,125,000	3,616,702,000
Seat miles sold	2,642,541,000	2,045,158,000
Passengers carried	4,401,507	3,574,793
Passenger load factor — actual %	60.9	56.5
— breakeven point %	48.5	46.3
Financial		
Operating revenues	$ 156,189,964	$ 123,599,314
Operating income	$ 31,982,772	$ 22,991,955
Net earnings	$ 16,035,959	$ 12,130,688
Cash dividends paid	$ 4,295,740	$ 3,433,752
Common stock outstanding	4,301,290	4,292,190
Earnings per share	$ 3.73	$ 2.83
Cash dividends per share	$ 1.00	$ 0.80
Shareholders' equity	$ 74,809,694	$ 62,710,025
Shareholders' equity per share	$ 17.39	$ 14.61
Cash and short-term securities	$ 19,707,488	$ 14,731,294
Working capital	$ 17,131,042	$ 11,502,712
Property and equipment at cost	$ 209,782,368	$ 177,465,034
Long-term debt	$ 47,500,000	$ 41,640,000
Number of employees at year end	5,564	4,420
Wages and salaries paid	$ 40,948,024	$ 32,902,116

President's Letter

To Shareholders, Employees, Customers and Friends:

As indicated in the financial data and descriptive text of this annual report, the year 1966 was an extremely important one in the progress of Western Air Lines.

It was a record year in every respect: all-time highs in passengers boarded, air freight carried, revenues and profits. And, although approximately $2,400,000, or 56 cents a share, of net income resulted from the effects of the 43-day strike that shut down several other airlines, it would have been a year of new records for Western without this additional traffic.

Equally important are the route expansion programs which were undertaken in the interest of future growth.

Foremost of these was the completion of a merger agreement with Pacific Northern Airlines, the leading carrier of Alaska traffic. Implementation of the proposed merger will give the traveling and shipping public one-carrier service along the North American rim of the Pacific Ocean, from Anchorage to Acapulco. For Western, the merger presents an opportunity to operate additional long-haul routes and to improve utilization of the combined jet fleets.

If approved by the Civil Aeronautics Board and stockholders of both companies, the combining of the two carriers is expected to take place this summer.

As detailed in the Route Development section of this report, the company is awaiting CAB decisions in route cases in which Western seeks to have its route system extended to Vancouver and Toronto, Canada, and from the Pacific Northwest and Rocky Mountain States into the Oklahoma-New Mexico-Texas-Louisiana area.

During the year, the company also filed new applications for a number of other routes. The most extensive of these was filed in the Transpacific route case.

This will be the largest and most complex route proceeding ever conducted by the Civil Aeronautics Board. It will cover half the world, from the East Coast of the U.S. to Asia.

Because a majority of visitors to the Pacific originate their travel in states served by Western, the company is a logical candidate for routes into this vast area. The case will be a long one, requiring perhaps two to three years to complete. Western won routes from California to Hawaii in the first Transpacific case in 1960 but the award was later rescinded by the CAB; however, we firmly believe we can, and should, win them again.

In the meantime, the company has many other growth problems which must be solved in 1967 and 1968. Training, which already consumes a considerable amount of the company's resources and energies, will be accelerated to prepare for expected increases in traffic and the introduction of 20 Boeing 737 twinjets in 1968.

In 1966, the company operated approximately 300 departures a day; by 1969, normal growth of our existing route system will increase this to more than 500 departures a day. The 550 pilots who operated our aircraft last year will be increased to a total of 800 in the three-year period. Two hundred and seventy stewardesses were trained last year; in 1968, delivery of the new 737s will make it necessary to train more than 500 stewardesses in a single year.

We believe 1967 will be another profitable year for Western. We plan to increase our seat mile production about 16 percent and expect traffic to grow.

There are factors, however, which make the company's goal of improved financial performance increasingly difficult. Costs and competition continue to increase. The labor contracts that were negotiated in the airline industry in 1966 established patterns that will mean significant increases in wages and salaries in the coming year. Taxes, landing fees, rentals and material costs also are steadily rising.

These are not new challenges to the employees and management of Western Air Lines. With your continued support we will meet them as we have in the past.

Terrell C. Drinkwater

PRESIDENT

February 27, 1967

WESTERN
WESTERN

Earnings

Earnings reached an all-time high of $16,035,959, or $3.73 a share, the 18th consecutive year in which the company has reported a profit.

This compares with net income of $12,130,688, or $2.83 a share, in 1965 and the previous record of $13,351,027, or $3.11 a share, in 1964.

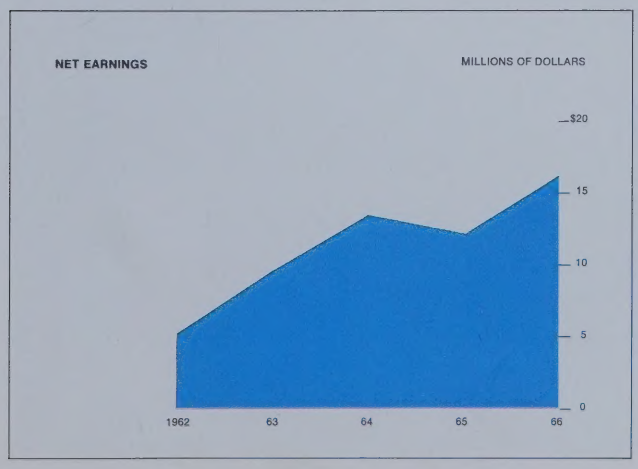
Per-share earnings for 1966 are based on 4,301,290 shares of stock outstanding as of December 31, 1966.

Included in the 1966 earnings is approximately $2,400,000, or 56 cents a share, which resulted from heavier-than-usual traffic in July and August when several of Western's competitors were idled by a 43-day strike.

Operating income totaled $31,982,772, equal to 20.5 percent of operating revenues, compared to $22,991,955, or 18.6 percent of revenues, in 1965.

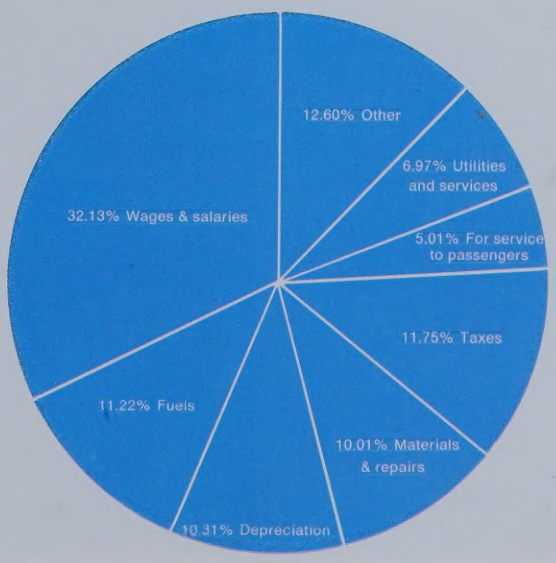
Earnings from operations before taxes were $30,007,001, or $6.98 a share. Provisions for taxes on income from operations, both current and deferred, totaled $14,050,000, or $3.27 a share.

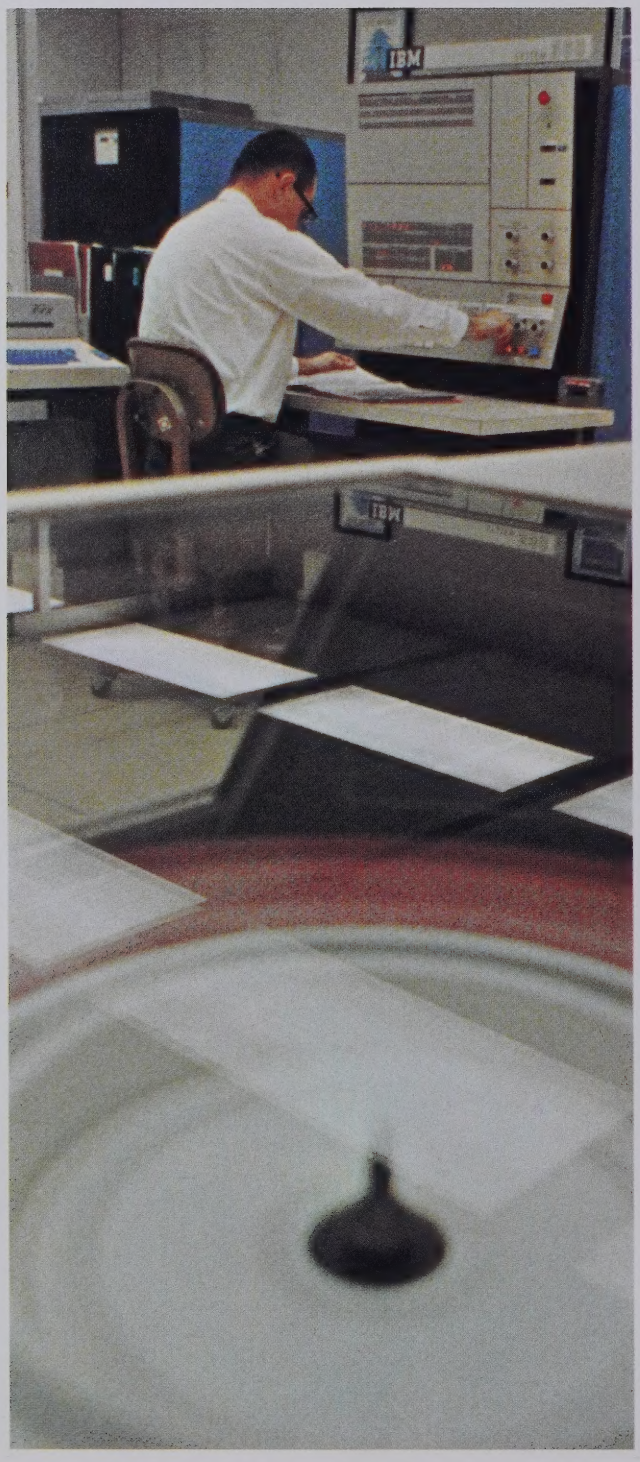
As disclosed in previous annual reports, in applying investment tax credits related to the purchase of aircraft and equipment, Western elected to amortize the credits to earnings over the productive life of the equipment



Revenue Dollar

Expense Dollar



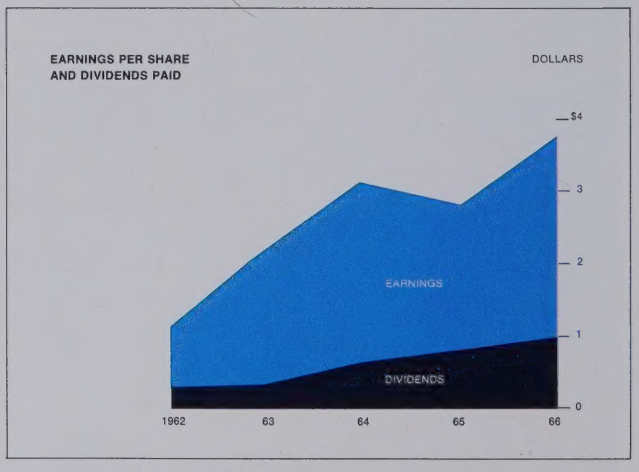


rather than take the full amount into income in the year in which the investment credit was realized. Included in 1966 earnings is $800,000 from this source. Deferred for credit to future years is $5,798,000, an increase of $1,461,000 over the amount deferred at the close of 1965.

Dividends

For the 16th consecutive year, shareholders of Western Air Lines received cash dividends in 1966. At its first meeting of 1966, the board of directors voted to increase the quarterly dividend rate from 20 cents a share to 25 cents a share effective with the dividend payable on March 7. Dividends also were paid on May 31, August 15 and November 28 for a total payment of $1.00 a share.

At the first regular board meeting of 1967, held in Phoenix on January 16, a quarterly dividend of 25 cents was voted, payable on February 20 to shareholders of record on February 1.



Annual Meeting

The 1967 meeting of shareholders will be held at the Century Plaza Hotel, Los Angeles, on Thursday, April 27. On or about March 20, stockholders will receive a formal notice of the meeting and proxy material.

Below Western's new passenger boarding area at San Francisco International Airport. Also opened during 1966 was a new terminal building at Palm Springs.

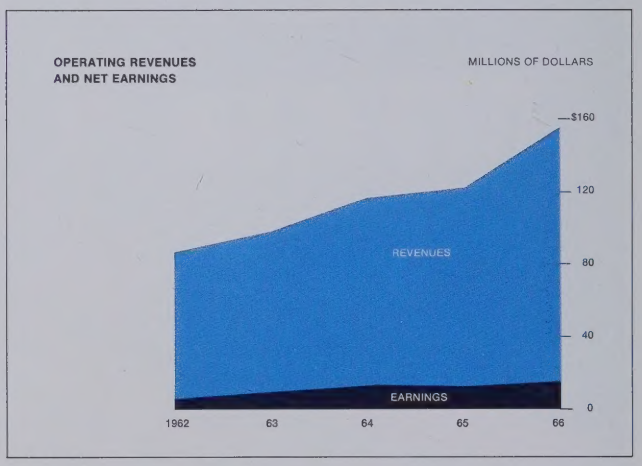
Below Western's Southwest Regional Reservations Office at Los Angeles, which handled up to 22,000 telephone calls a day during the strike, is designed for an ultimate capability of 60,000 calls a day.

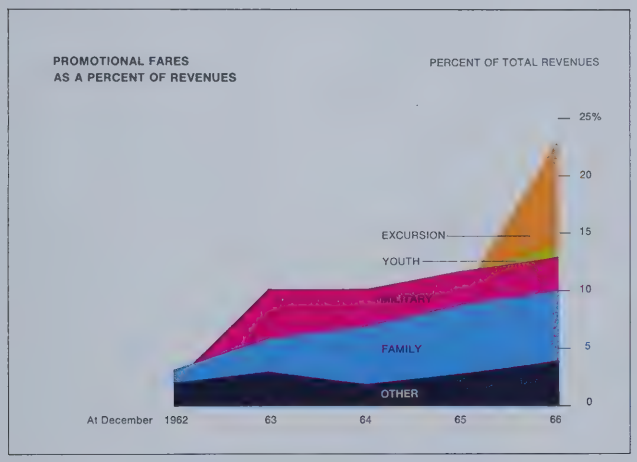
Revenues

The total operating revenues for 1966 were a record $156,189,964, a 26 percent increase over the $123,599,314 of the previous year.

The number of passengers carried increased 23 percent to an all-time high of 4,401,507. Seat miles sold were up 22 percent in the first quarter, 28 percent in the second, 40 percent in the third quarter (strike period) and 24 percent during the fourth quarter for a 29 percent gain over the previous year.

Accompanying the increase in passenger boardings was a continuation of the growth of discount fare travel. During the year, more than 20 percent of Western's passengers used the family plan, excursion rate, military furlough fare, youth fare or some other form of discount ticket. As a result, the yield per seat mile sold decreased from 5.71 cents in 1965 to 5.58 cents, the company's lowest yield per seat mile sold since 1957, when it was 5.58 cents. If adjusted for the 12 percent increase reflected in the Consumer Price Index, however, the cost



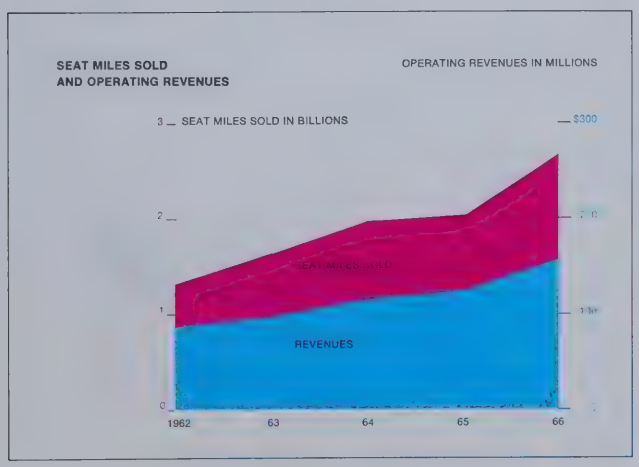


of a seat mile to Western's passengers was lower in 1966 than in 1957.

Of Western's income dollar, 93.8 percent was derived from passenger traffic (80 percent from coach and 13.8 percent from deluxe). Express, freight and excess baggage accounted for 2.9 percent, mail for 1.8 percent and all other sources 1.5 percent.

Expenses

The total operating expenses for 1966 amounted to $124,207,192, a 23 percent increase over 1965. Wages



and salaries increased 24 percent, other expenses were up 27 percent and depreciation increased seven percent.

Contributing to the expense increase was a 20 percent increase in seat miles produced and an 18 percent increase in airplane miles flown.

The cost per seat mile produced increased during the year, from 2.78 cents in 1965 to 2.86 cents in 1966.

The breakeven load factor (percentage of seats produced which must be sold to produce a breakeven of expenses and income) increased from 46.3 percent in 1965 to 48.5 percent in 1966. Contributing almost equally to the increase in breakeven were increased expenses and the decrease in yield per seat mile sold referred to in the Revenues section of this report.

Depreciation costs increased from $13,596,263 in 1965 to $14,542,185 for 1966, largely through the addition of Boeing 720B fanjets to the company fleet. Also affecting depreciation costs during the year was a change in policy which extended depreciation on the company's Electras to a common terminal date of December 31, 1967, and reduced 1966 depreciation by $1,500,000.

Finances

Western Air Lines closed the year 1966 in a strong financial condition.

Working capital at December 31 totaled $17,131,042, compared to $11,502,712 at the end of the previous year. Cash totaled $10,208,387 and short-term securities were carried in the amount of $9,499,101.

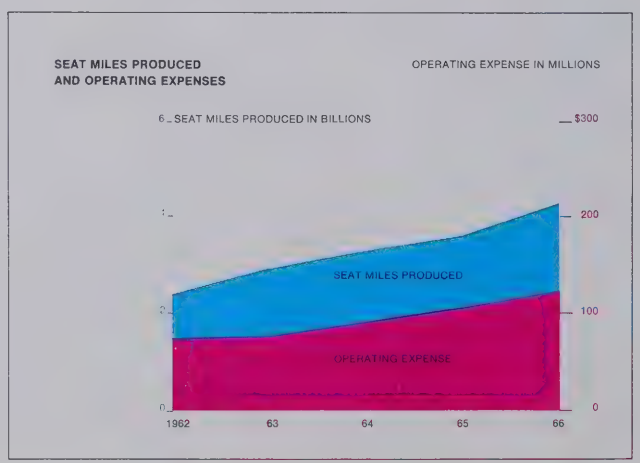
Current assets amounted to $38,437,453 and current liabilities to $21,306,411, providing a current assets-to-current liabilities ratio of $1.80 to $1.00.

At the end of 1966, Western's long-term debt consisted of $30 million owed to insurance companies and $17.5 million owed to the Bank of America. An additional $7.5 million is available under a 1965 agreement.

In the Fall of 1966, the company made arrangements for additional borrowings of $60 million, $40 million

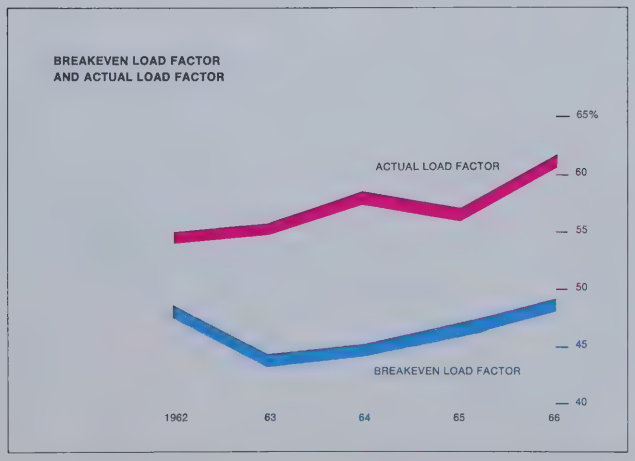
Brief Balance Sheet

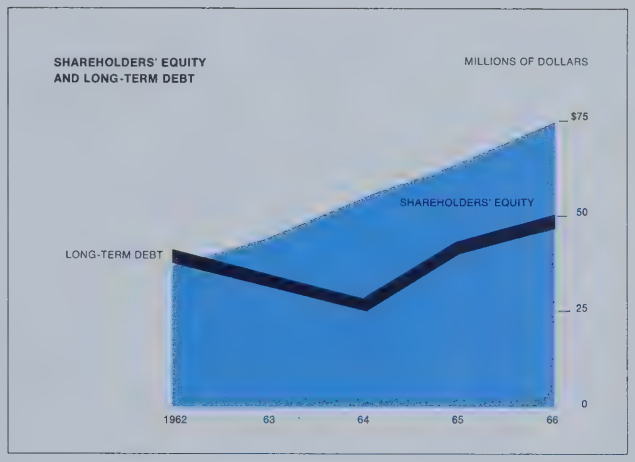
	1966	1965
Western owns:		
Cash and short-term securities	$ 19,707,488	$ 14,731,294
Receivables due from others	11,827,054	8,827,891
Maintenance and operating supplies	4,764,100	2,641,137
Buildings and improvements, net	8,194,947	8,050,048
Flight and other equipment, net	115,405,708	99,753,352
Deposits on new equipment	8,649,775	5,923,190
Prepaid expenses	2,138,811	1,787,114
Deferred charges and other	869,222	609,723
	171,557,105	142,323,749
Western owes:		
Payables due to vendors and others	15,798,679	12,465,974
Federal income taxes — current and deferred	25,323,581	19,225,584
Deferred investment credits	5,798,000	4,337,000
Tickets sold but not yet used	2,327,151	1,945,166
Notes payable — current and long-term	47,500,000	41,640,000
	96,747,411	79,613,724
Excess of what is owned over what is owed, or shareholders' equity	$ 74,809,694	$ 62,710,025



Brief Statement of Earnings

	1966	1965
Western's revenues came from:		
Passengers		
Coach	$125,748,335	$102,848,440
Deluxe	21,720,352	13,716,879
	147,468,687	116,565,319
Express, freight and baggage	4,554,514	3,808,555
Mail	2,743,031	1,730,084
Other income	2,230,181	1,877,533
Gain on disposition of property	153,957	1,693,416
	157,150,370	125,674,907
Western's expenses were:		
Wages and salaries	40,948,024	32,902,116
Social security, group insurance and retirement plans	4,385,411	3,082,234
Taxes	16,586,864	12,610,384
Aircraft fuels	15,836,996	12,742,437
Depreciation and amortization	14,542,185	13,596,263
Materials and repairs	14,131,026	11,777,987
Utilities and services	9,835,262	7,924,603
Service to passengers	7,070,185	4,740,378
Rentals and landing fees	4,355,430	3,599,210
Advertising and publicity	4,626,184	3,741,207
Insurance	2,669,826	2,430,247
Interest	2,748,802	2,105,096
Other costs	3,378,216	2,292,057
	141,114,411	113,544,219
Net earnings	$ 16,035,959	$ 12,130,688





from insurance companies and $20 million from Bank of America. These agreements are scheduled for completion in the near future.

The additional funds to be provided by the new credit agreements, plus funds to be generated internally, should, in the absence of unforeseen circumstances, provide adequate financing for all aircraft presently on order or on option.

A Statement of Source and Application of Funds is included in this report.

Shareholders and Stock

At the close of 1966, there were 4,301,290 shares of Western Air Lines common stock issued and outstanding, an increase of 9,100 over the number outstanding at the end of 1965. The new shares were issued through the exercise of qualified stock options.

The company's stock was held by approximately 23,000 stockholders.

At the 1966 annual meeting of shareholders held in Los Angeles in April, 87.1 percent of all shares were voted in person or by proxy.

Shareholders' equity in 1966 increased to $74,809,694,

TERRELL C. DRINKWATER, *President, Western Air Lines, Inc.*

EDWIN W. PAULEY, *Chairman of the Board, Pauley Petroleum, Inc., Los Angeles, California*

J. JUDSON TAYLOR, *Senior Vice President and Treasurer, Western Air Lines, Inc.*

GOODRICH LOWRY, *Chairman of the Board, Northwest Bancorporation, Minneapolis, Minnesota*

OTIS CHANDLER, *Publisher, Los Angeles Times & Senior Vice President, Times-Mirror Company, Los Angeles, California*

*DONALD H. MCLAUGHLIN, *Chairman of the Board, Homestake Mining Company, San Francisco, California*

HOWARD C. WESTWOOD, *Covington & Burling, Attorneys-at-Law, Washington, D.C.*

HUGH W. DARLING, *Darling, Mack, Hall & Call, Attorneys-at-Law, Los Angeles, California*

STANLEY R. SHATTO, *Executive Vice President-Transportation, Western Air Lines, Inc.*

ALEXANDER WARDEN, *Newspaper Consultant, Great Falls, Montana*

or $17.39 a share, from 1965 equity of $62,710,025, or $14.61 a share, a 19 percent increase.

Board of Directors

Four new members were elected to Western's board of directors during 1966.

In May, Art Linkletter, noted radio and television personality who also is engaged in a variety of business activities, and Judge James D. Garibaldi of Los Angeles were elected, increasing the size of the board to 15 members.

In July, two veteran members of the board, Dr. Donald McLaughlin of San Francisco and John M. Wallace of Salt Lake City retired as active directors and were named directors-emeriti. Named to succeed them were Leonard K. Firestone, president of the Firestone Tire and Rubber Company of California, and Richard W. Wright of Denver, executive vice president of the Mountain States Employers Council.

On November 29, Robert E. Driscoll, who was elected to the board in 1951 and became a director-emeritus in 1965, died in Santa Monica, Calif.

ART LINKLETTER, *Linkletter Enterprises, Inc. Los Angeles, California*

JUDGE JAMES D. GARIBALDI, *Garibaldi & Lane, Los Angeles, California*

VERNON O. UNDERWOOD, *President, Young's Market Co., Inc., Los Angeles, California*

RICHARD W. WRIGHT, *Executive Vice President, Mountain States Employers Council, Inc., Denver, Colorado*

SIDNEY F. WOODBURY, *President, Pine Street Company, Portland, Oregon*

* JOHN M. WALLACE, *Honorary Chairman of the Board, Walker Bank & Trust Company, Salt Lake City, Utah*

LEONARD K. FIRESTONE, *President, Firestone Tire & Rubber Co. of California, Los Angeles, California*

HARRY J. VOLK, *President, Union Bank, Los Angeles, California*

** Director-Emeritus*

Equipment and Facilities

Western took delivery of four additional Boeing 720B aircraft during 1966 — one in January, one in March and two in July — and sold one DC-6B. At year's end, Western operated a fleet consisting of 22 720B fanjets, 12 Lockheed Electra propjets and four Douglas DC-6B's.

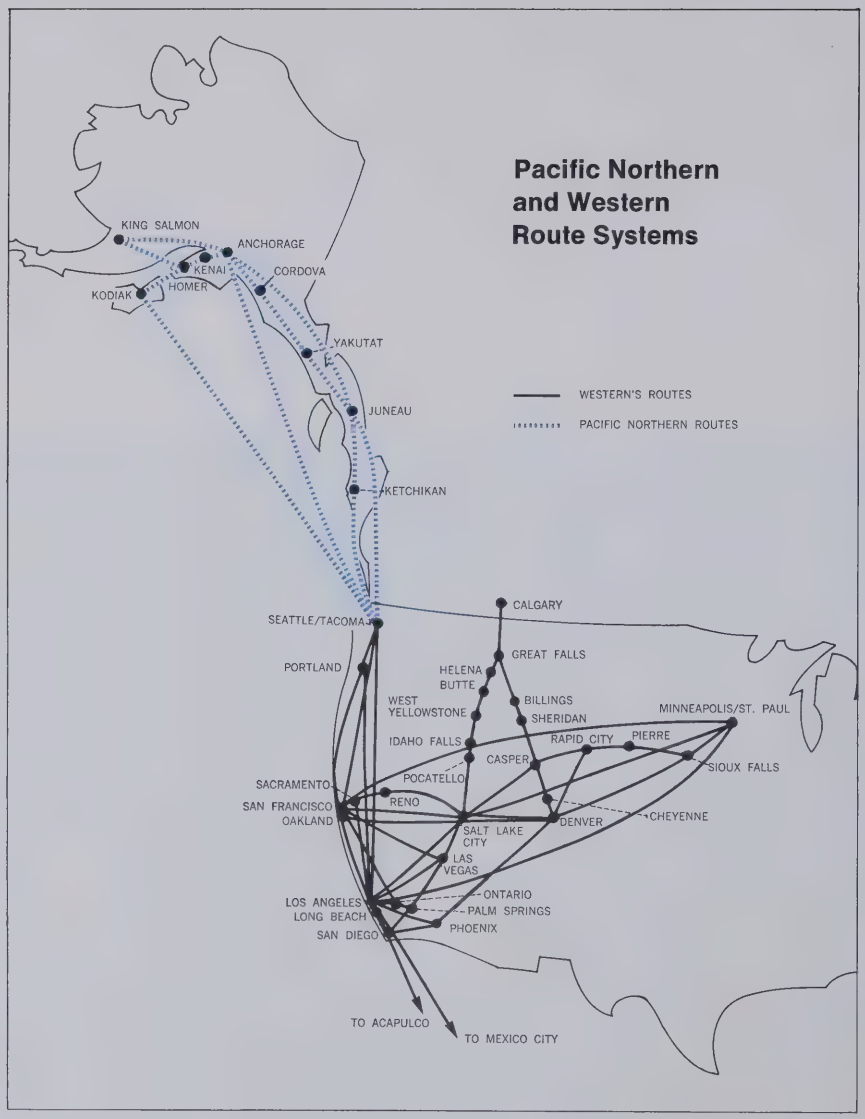
Seventy-six percent of seat miles produced during the year were produced by the 720B's, 20 percent by the Electras and four percent by the DC-6B's.

In August, the company increased its orders for 1967 deliveries from four 720B's to five. One will be delivered in May, one in June, one in August and two in September.

At the same time, the company rescheduled delivery of its Boeing 737 twinjets and increased its options for 737s from five to 10.

Under the original schedule, 15 of the twinjets were to have been delivered in 1968 and five in 1969. Under the new schedule, all 20 will be delivered between March and December of 1968.

On January 31, 1967, the company exercised its option for five 737s, to be delivered in the first quarter of



1969. The five remaining on option also would be for delivery in 1969.

To provide facilities that will be needed to maintain the company's growing fleet, Western completed arrangements in 1966 for the construction of a $2.8 million maintenance base at San Francisco and a hangar and maintenance facilities at Denver, to be leased and occupied in 1968.

Late this year, Western will install a 737 electronic flight simulator for use in training company pilots who will fly the new twinjets. Also to be delivered late in 1967 will be the main elements of the company's new IBM data processing system which will be used to process reservations, perform message-switching and handle a variety of commercial data processing activities.

Merger Agreement

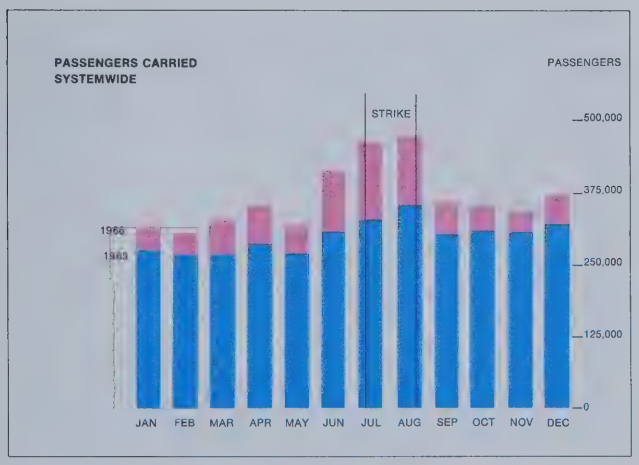
On October 26, 1966, the managements of Western Air Lines and Pacific Northern Airlines jointly announced their intention to effect a merger between the two corporations.

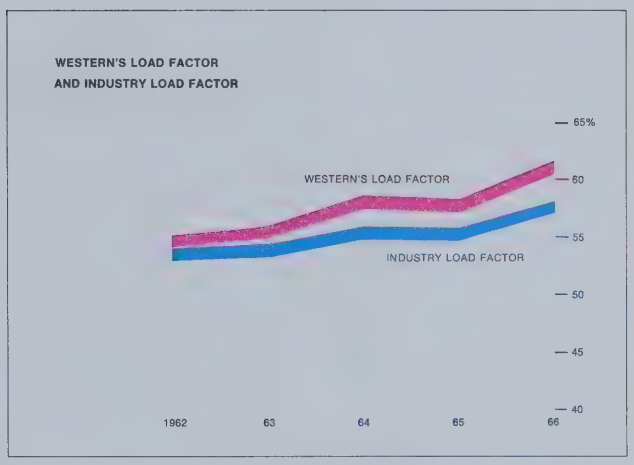
The agreement of merger, dated November 10, 1966, is subject to approval by shareholders of the two companies, the Civil Aeronautics Board, other state and federal agencies and holders of the companies' long-term debt. Hearings before the CAB will begin on March 6; Western's shareholders will vote on the proposal at the annual meeting of April 27, PNA stockholders on May 18.

The agreement is based on the exchange of two shares of PNA stock for one share of WAL stock, the exchange to be made at the time the merger is consummated. There were 1,068,109 shares of PNA common stock outstanding as of December 31, 1966.

PNA, which would operate as the Alaskan Division of Western, is the dominant carrier serving Alaska. Its routes serve cities which are inhabited by 80 percent of the population of Alaska and link Anchorage, the Kenai

Below In 1966, Western's stewardesses corps was enlarged beyond the 500 mark for the first time; more than 650 new stewardesses will have to be trained during the next two years and much retraining will be required.





Peninsula, Juneau, Ketchikan and other points to Seattle, where PNA's headquarters is located and where the two airline route systems would join.

Additional information about the agreement of merger will be contained in proxy material to be mailed to stockholders on or about March 20.

Sales and Service

In 1962, Western carried more than 2,000,000 passengers in a single year for the first time.

In 1966, only four years later, this figure was more than doubled as 4,401,507 passengers were carried on company flights.

Passenger load factor for the year was 60.9 percent, highest since 1956.

With 20 percent more seat miles available for sale, WAL sold 29 percent more seat miles than in 1965.

Passenger revenues reached $147,468,687, an increase of 27 percent over the previous year, and air cargo revenues (freight, express, excess baggage, air mail and regular first class mail) increased 32 percent to $7,297,545.

Highlighting the company's marketing program during the year was a combined sales-and-service effort entitled the "Flub Stub" program.

It was based on the company's pride and confidence in its employees. And, for the first time in the airline industry, a company was willing to back up that confidence with cash guarantees to its customers.

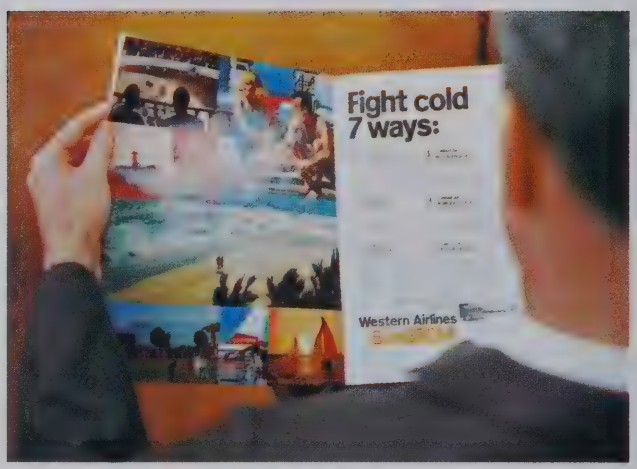
Focal point of the program was an eight-point creed which was displayed at ticket offices and airport counters and advertised widely. The creed contained specific promises of a cordial and courteous attitude and excellent service.

"Anytime we don't live up to one of these promises — or give you an immediate explanation why we can't, you get a Flub Stub worth a buck," the company promised.

The program was successful in a number of ways: it became a conversation piece among air travelers and drew attention in a light-hearted way to the company's sincere concern for its customers. It also reminded employees of the importance of the service features listed in the creed and ultimately pointed out to supervisors several areas where additional training or other attention was needed.

In other marketing programs, the company adhered to two principles: cooperation with other elements of the travel industry to produce travel as a complete product and the creation of tour packages which were easy to purchase and simple to use.

In its cooperative effort, the company teamed with hotels, auto rental companies, bus lines, railroads, steamship companies, other airlines, tour operators, travel



agents and representatives of city, state and federal tourism departments in the U.S., Canada and Mexico.

Travel agencies continued to sell a significant amount of the company's products: $56 million in 1966.

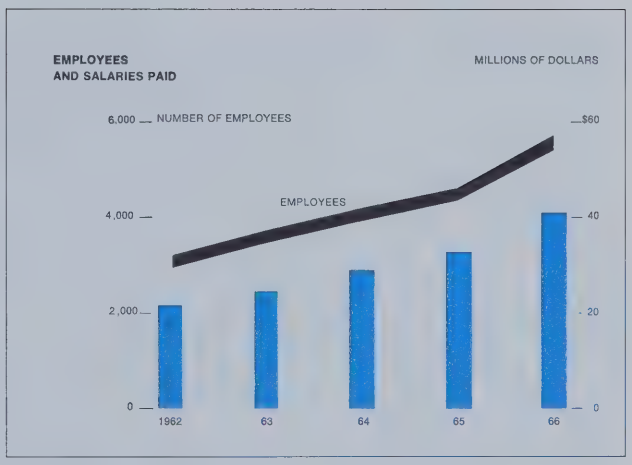
For winter vacationers who want to escape the cold, Western launched its 15th annual "Sun Break" campaign on a theme of "Fight Cold Seven Ways." The seven "cures" for cold-weather woes were WAL destinations: Acapulco, Las Vegas, Los Angeles, Mexico City, Palm Springs, Phoenix/Scottsdale and San Diego.

For winter vacationers who prefer winter sports, the company followed up the successful 1965-1966 "Ski Utah" program by expanding it to a "Ski Western America" theme. It featured Banff and Lake Louise via Calgary; the High Sierra via the Reno gateway; Jackson Hole (Wyoming), Sun Valley (Idaho) and Utah's Alta, Brighton, Solitude and Park City via the Salt Lake City gateway; and Vail, Colorado, via the Denver gateway.

Western's summertime "North Country Adventures" campaign emphasized vacations in Western Canada and Alaska, as well as the many national parks throughout the West.

In a bid to obtain a larger share of the burgeoning air cargo market during 1967, the company conducted a sales-and-service air cargo seminar. Cargo sales managers were named in key cities on the Western system.

Also established during the year was a sales office in Tokyo to serve as headquarters for the company's efforts to participate in U.S. travel performed by residents of the Pacific and military personnel who are returning to the West.



Personnel

As of December 31, Western had 5,564 employees, compared to 4,420 at the end of 1965.

Wages and salaries amounted to $40,948,024, compared to $32,902,116 in the previous year.

Two new divisions were formed during the year, con-

solidating functions which had been assigned to other divisions. Elected vice president of a new Economic Planning Division, which includes research, tariffs and flight schedules, was Dr. John R. Summerfield, former Douglas Aircraft Company and RAND Corporation economist.

Jack M. Slichter, former vice president of the Air Transport Association, was elected vice president of a new Government and Industry Affairs Division.

Other corporate officers elected during the year were Luis Pasquel, vice president–Mexico; Ray Silvius, vice president–public relations; Willis R. Balfour, assistant vice president–agency and interline sales; Eugene D. Olson, assistant vice president–data processing and systems; and Rick O. Hammond, assistant treasurer.

On February 1, 1967, Henry M. deButts, former administrative assistant to the chairman of the Civil Aeronautics Board, joined Western as assistant vice president in the Government and Industry Affairs Division.

Three labor contracts were signed during 1966, one covering clerks, passenger agents and baggage handlers; one covering mechanics, inspectors and other maintenance personnel; and the third covering stock clerks.

An agreement covering Western's stewardesses was signed in February 1967.

Eighty-nine percent of the company's employees are represented by unions.

Route Development

In addition to entering into a merger agreement with Pacific Northern Airlines, Western was extremely active in seeking additional routes during 1966.

All procedural steps were concluded in three Civil Aeronautics Board cases in which the company is an applicant. Final decisions in these cases are expected soon. They are:

Pacific Northwest-Southwest Service Investigation — In this case, the area under examination runs from Seattle to New Orleans and involves service to almost every major city between these two points. The Bureau of Operating Rights, a part of the CAB staff, has recommended that Western be granted Idaho Falls-Salt Lake City-Denver-Dallas/Ft. Worth-Houston-San Antonio authority. The examiner in the case recommended that Western be granted a Seattle-Portland-Salt Lake City-Casper-Denver-Albuquerque-Dallas/Ft. Worth-Houston route. Major route awards also have been recommended for other carriers.

Los Angeles/San Francisco-Vancouver Route — The Bureau of Operating Rights has recommended that Western be given Los Angeles and San Francisco-to-Vancouver routes via Portland, while the examiner recommended that the new authority be awarded to United Airlines.

Los Angeles/Chicago-Toronto Service Investigation — Western is seeking Los Angeles-Toronto nonstop service. Both the Bureau of Operating Rights and examiner have recommended another airline for this route.

In February of 1966, after the board reconsidered and reversed the award of a California-Hawaii route it had made in December 1960, Western filed two new applications for routes to Hawaii and the Orient for inclusion in a new Transpacific case.

One application involves domestic routings that would link Hawaii with major cities throughout the U.S. In an application for international services, Western seeks routes from the U.S. and from co-terminal points of Mexico City and Acapulco beyond Hawaii to Tokyo, Osaka, Seoul, Okinawa, Taipei, Manila, Hong Kong, Singapore, Saigon, and Bangkok.

Hearings in this case opened in Honolulu on February 15; a final decision is expected in about two years.

In August, the company received temporary authority from the CAB to provide nonstop or through-plane service between Minneapolis/St. Paul and Los Angeles and San Francisco. At the same time, the board instituted a Twin Cities-California proceeding to examine the need for permanent nonstop service between these areas.

Western will seek to have its authority for nonstop service, which is effective until 90 days after final CAB action in this proceeding, made permanent. Included in the case are applications of a number of other carriers who have requested authority to provide nonstop service on these routes competitive with Western. Hearings are scheduled to begin June 1; a decision is expected in 1968.

The CAB also established a Salt Lake City-Las Vegas-Southern California Service Case. This proceeding involves the question of competitive service between Los Angeles and Salt Lake City (nonstop and via Las Vegas) and between San Diego and Las Vegas (nonstop and via Palm Springs), as well as the removal of the restriction which prohibits Bonanza Air Lines from providing turnaround service between Los Angeles and Palm Springs. Hearings in this case will be held later this year.

Already providing seasonal service to West Yellowstone via the Salt Lake City gateway, the company also is seeking authority to fly to Yellowstone Park through Denver, Casper and Billings gateways. Hearings in the case were held late in 1966 and the examiner has recommended that Frontier Airlines be granted the route instead of Western. A decision is expected by early summer.

Western is awaiting CAB approval of a request to have its application consolidated into the Gulf States-Midwest Points case which involves consideration of the need for new long-haul services between the Gulf States area (Texas, Louisiana, Mississippi and Alabama) and the major Midwest trade centers of Chicago, Detroit, St. Louis and Kansas City. Western also has other applications on file which have not been set down for hearing and which involve the following routes: Las Vegas-Phoenix; Las Vegas-Denver; Minneapolis/St. Paul-Chicago/Detroit/Philadelphia/Boston/New York City; Seattle/Tacoma-Portland-Great Falls-Billings-Minneapolis/St. Paul-New York City; to add Milwaukee, Omaha, Des Moines, Chicago, Albuquerque, Tucson and Sacramento to Western's route between the Twin Cities and the West Coast; Sacramento/Reno-Portland/Seattle; Los Angeles/San Francisco-Miami; Los Angeles/San Francisco-Atlanta; Los Angeles/San Diego-Tucson; Las Vegas-Phoenix-Tucson.

In January 1966, Western began regular service to Acapulco under temporary authority granted by the CAB as a result of bilateral agreement discussions between the U.S. and Mexico. This authority was made permanent in September 1966.

Ten Years of Growth

	1966[2]	1965
Financial		
Revenues:[3]		
Passenger	$ 147,469	116,565
Express, freight and excess baggage	4,554	3,808
Mail	2,743	1,730
Other	1,424	1,496
Total Revenues	156,190	123,599
Operating Expenses:[3]		
Depreciation and amortization	14,542	13,596
Payroll	40,948	32,902
Other	68,717	54,109
Total Operating Expenses	124,207	100,607
Operating Income[3]	31,983	22,992
Interest[3]	(2,749)	(2,105)
Other Income and Expenses—Net[3]	773	260
Earnings before Taxes on Income[3]	30,007	21,147
Taxes on Income[3]	14,050	9,900
Net Earnings from Operations[3]	15,957	11,247
Gain on Disposition of Property (Less Applicable Income Taxes)[3]	79	883
Net Earnings[3]	$ 16,036	12,130
Shareholders		
Net earnings from operations per share[1]	$ 3.71	2.62
Gain on disposition of property per share[1]	0.02	0.21
Total	$ 3.73	2.83
Dividends paid per share:		
Cash[1]	$ 1.00	0.80
Stock	—	—
Shares outstanding—actual[3]	4,301	4,292
—adjusted[1,3]	4,301	4,292
Shareholders' equity—total[3]	$ 74,810	62,710
Shareholders' equity—a share[1]	17.39	14.61
Working capital[3]	17,131	11,503
Long-term debt[3]	47,500	41,640
Property and equipment—net[3]	132,250	113,726
Total assets[3]	171,557	142,324
Operations		
Route miles at end of year	9,687	9,687
Airplanes at end of year:		
Boeing 720-B	22	18
Boeing 707—leased	—	—
Lockheed Electra II	12	12
Douglas DC-6B	4	5
Other aircraft—piston powered	—	—
Airplane miles flown[3]	38,035	32,343
Ton miles produced[3]	528,081	434,881
Ton miles sold[3]	275,938	212,818
Seat miles produced[3]	4,336,125	3,616,702
Seat miles sold[3]	2,642,541	2,045,158
Express, freight & mail ton miles sold[3]	22,379	16,099
Passengers carried	4,401,507	3,574,793
Express, freight & mail tons carried	30,466	21,898
Passenger load factor—actual %	60.9	56.5
—breakeven point %	48.5	46.3
Average length in miles per passenger trip	600	572
Average revenue per passenger mile	$ .0558	.0571
Employees at end of year	5,564	4,420

[1]Based on shares outstanding at close of respective periods adjusted to give retroactive effect to stock dividends and to the May 1964 three-for-one stock split.
[2]Five other major carriers were struck from July 8 to August 19, 1966; Western's operations were adversely affected by strikes during 1961 and 1958.
[3]000 omitted.

1964	1963	1962	1961[2]	1960	1959	1958[2]	1957
111,432	93,913	81,170	59,737	64,356	59,194	31,459	39,243
3,718	3,248	2,964	2,271	2,473	2,256	1,305	1,596
1,561	1,320	1,427	1,231	1,393	1,295	732	1,067
934	946	809	1,013	855	508	474	313
117,645	99,427	86,370	64,252	69,077	63,253	33,970	42,219
11,718	10,980	13,098	11,211	10,000	6,643	4,136	3,011
29,040	24,749	21,840	17,987	19,478	17,704	11,947	14,335
49,988	43,598	41,254	32,864	33,323	27,696	16,831	20,076
90,746	79,327	76,192	62,062	62,801	52,043	32,914	37,422
26,899	20,100	10,178	2,190	6,276	11,210	1,056	4,797
(1,947)	(2,322)	(2,286)	(1,889)	(1,330)	(1,127)	(1,023)	(780)
799	621	483	(119)	438	180	74	90
25,751	18,399	8,375	182	5,384	10,263	107	4,107
12,400	9,165	4,250	125	3,050	5,456	227	2,233
13,351	9,234	4,125	57	2,334	4,807	(120)	1,874
—	191	889	807	105	210	1,522	528
13,351	9,425	5,014	864	2,439	5,017	1,402	2,402
3.11	2.15	0.96	0.01	0.54	1.47	(0.04)	0.65
—	0.05	0.21	0.19	0.03	0.06	0.50	0.18
3.11	2.20	1.17	0.20	0.57	1.53	0.46	0.83
0.65	0.37	0.33	0.33	0.33	0.27	0.24	0.23
—	—	—	—	5%	4%	4%	4%
4,292	1,431	1,431	1,431	1,431	1,041	928	849
4,292	4,292	4,292	4,292	4,292	3,273	3,034	2,886
54,013	43,452	35,601	32,017	32,584	24,545	18,996	17,469
12.58	10.12	8.29	7.46	7.59	7.50	6.26	6.05
8,827	6,580	12,364	5,505	16,841	11,518	5,320	4,688
26,970	32,940	39,488	36,097	24,790	25,272	19,748	16,827
89,626	82,243	67,696	63,117	43,109	39,985	35,243	31,128
124,172	111,202	98,830	85,697	72,433	67,223	49,596	44,017
9,474	9,474	9,545	8,827	8,827	8,827	9,153	8,799
12	10	7	4	—	—	—	—
—	—	—	2	2	—	—	—
12	12	12	12	6	5	—	—
14	14	16	19	27	27	27	21
—	—	—	—	4	5	8	14
32,442	29,035	25,262	20,624	25,996	25,689	16,449	21,986
401,999	352,038	307,570	224,819	207,554	196,178	123,416	137,640
203,539	168,002	137,492	101,232	109,316	103,741	56,710	74,468
3,388,541	2,929,673	2,402,344	1,718,854	1,776,076	1,623,007	981,740	1,175,071
1,964,512	1,615,189	1,307,173	957,560	1,034,481	982,010	533,443	702,727
14,136	12,291	11,574	8,987	9,538	8,899	5,309	7,118
3,532,978	2,812,640	2,128,225	1,529,137	1,721,619	1,689,278	970,498	1,379,653
18,992	16,250	16,037	12,364	13,354	12,792	8,010	11,537
58.0	55.1	54.4	55.7	58.2	60.5	54.3	59.8
44.6	43.6	48.0	55.5	53.3	50.0	54.1	53.5
556	574	614	626	601	581	550	509
.0567	.0582	.0623	.0632	.0626	.0605	.0595	.0558
4,092	3,513	3,078	2,794	2,730	2,962	2,547	2,773

Western Air Lines Inc. Balance Sheet

December 31, 1966, with comparative figures for 1965

ASSETS	1966	1965
Current Assets:		
Cash	$ 10,208,387	$ 3,226,341
Short-term securities (approximating market)	9,499,101	11,504,953
Receivables	11,827,054	8,827,891
Maintenance and operating supplies	4,764,100	2,641,137
Prepaid expenses	2,138,811	1,787,114
Total Current Assets	38,437,453	27,987,436
Property and Equipment at Cost:		
Flight equipment	171,557,486	145,650,100
Ground equipment	29,575,107	25,891,744
Deposits on purchase contracts *(Note 3)*	8,649,775	5,923,190
	209,782,368	177,465,034
Less allowance for depreciation and maintenance	77,531,938	63,738,444
	132,250,430	113,726,590
Deferred Charges and Other Assets	869,222	609,723
	$171,557,105	$142,323,749

See accompanying notes to financial statements

LIABILITIES	1966	1965
Current Liabilities:		
Accounts payable	$ 8,645,055	$ 7,355,789
Accrued salaries and wages	4,256,825	3,075,472
Accrued liabilities	2,896,799	2,034,713
Unused transportation	2,327,151	1,945,166
Accrued federal income taxes *(Note 1)*	3,180,581	2,073,584
Total Current Liabilities	21,306,411	16,484,724
Long-Term Debt *(Note 2)*	47,500,000	41,640,000
Deferred Credits *(Note 1):*		
Deferred federal taxes on income	22,143,000	17,152,000
Unamortized investment credits	5,798,000	4,337,000
	27,941,000	21,489,000
Shareholders' Equity *(Notes 2, 5 and 7):*		
Common stock — $1.00 par value per share		
Authorized 10,000,000 shares		
Issued 4,301,290 and 4,292,190 shares	4,301,290	4,292,190
Capital in excess of par value	16,850,476	16,500,126
Retained earnings	53,657,928	41,917,709
	74,809,694	62,710,025
	$171,557,105	$142,323,749

Western Air Lines Inc. Statement of Earnings and Retained Earnings

For the year ended December 31, 1966, with comparative figures for 1965

	1966	1965
Operating Revenues:		
Passenger	$147,468,687	$116,565,319
Express, freight and excess baggage	4,554,514	3,808,555
Mail	2,743,031	1,730,084
Other	1,423,732	1,495,356
	156,189,964	123,599,314
Operating Expenses:		
Flying operations	29,766,875	24,368,243
Maintenance	21,522,491	17,701,842
Passenger service	12,468,382	8,809,333
Aircraft and traffic servicing	20,777,766	16,055,632
Marketing and administrative	25,129,493	20,076,046
Depreciation and amortization *(Note 6)*	14,542,185	13,596,263
	124,207,192	100,607,359
Operating Income	31,982,772	22,991,955
Other Income (Expenses):		
Interest expense	(2,748,802)	(2,105,096)
Interest income	806,449	382,177
Other expense — net	(33,418)	(121,764)
Earnings before Taxes on Income	30,007,001	21,147,272
Taxes on Income *(Note 1)*	14,050,000	9,900,000
Net Earnings from Operations	15,957,001	11,247,272
Gain on Disposition of Property (Less Applicable Income Taxes)	78,958	883,416
Net Earnings $3.73 per share in 1966 and $2.83 in 1965	16,035,959	12,130,688
Retained Earnings at Beginning of Year	41,917,709	33,220,773
	57,953,668	45,351,461
Cash Dividends Paid $1.00 per share in 1966 and $0.80 in 1965	4,295,740	3,433,752
Retained Earnings at End of Year *(Note 2)*	$ 53,657,928	$ 41,917,709

See accompanying notes to financial statements

Western Air Lines Inc. Statement of Source and Application of Funds

For the year ended December 31, 1966, with comparative figures for 1965

	1966	1965
Funds Provided:		
Net earnings	$16,035,959	$12,130,688
Less gain on disposition of property	78,958	883,416
Net earnings from operations	15,957,001	11,247,272
Add back		
Depreciation and maintenance reserve provision	15,765,535	13,979,818
Deferred income taxes	4,991,000	2,072,000
Charge equivalent to investment credit	1,461,000	1,548,000
Total from operations	38,174,536	28,847,090
Increase in long-term debt	5,860,000	14,670,000
Proceeds from disposition of property, net of taxes	315,394	1,893,433
Exercise of stock options	359,450	—
	6,534,844	16,563,433
Total	44,709,380	45,410,523
Funds Applied:		
Purchase of airplanes, property, and equipment	34,525,810	39,223,742
Payment of cash dividends	4,295,740	3,433,752
Other items	259,500	76,896
	39,081,050	42,734,390
Increase in working capital	5,628,330	2,676,133
Total	$44,709,380	$45,410,523

Notes to Financial Statements

Note 1. Taxes on Income. Federal income tax returns have been examined by the U.S. Treasury Department through 1963. The 1966 provision for income taxes is summarized as follows:

Charged to Operations:	
Current income taxes	$ 7,598,000
Deferred income taxes	4,991,000
Charge equivalent to investment credits, net of amortization of $800,000	1,461,000
	14,050,000
Applicable to Gain on Disposition of Property	75,000
	$14,125,000

Investment credits are being amortized to income over the lives of the related equipment.

Note 2. Long-Term Debt (Unsecured). On December 31, 1966, long-term notes payable were as follows:

Bank Loans:

$17,500,000 (of a maximum $25,000,000) in a revolving fund credit until March 31, 1969 at interest not to exceed 5¼%. Notes outstanding on March 31, 1969 will be converted into a 5% term note due in 1974, with equal monthly payments commencing in July 1969.

Insurance Company Loans:

$30,000,000 in 5¼% notes due in 1981, with payments of $1,000,000 per year starting in 1970 and increasing to $4,000,000 a year in 1976.

The related agreements with the bank and insurance companies provide among other things (including restrictions on additional borrowings) conditions and requirements which at December 31, 1966 operated to restrict retained earnings from cash dividend distribution in the amount of $43,487,434, leaving $10,170,495 not so restricted.

Arrangements for additional borrowings of $60,000,000 are presently being finalized.

Note 3. Commitments and Contingent Liabilities. Jet aircraft and other major items on order at December 31, 1966 together with five optioned jet aircraft ordered in January 1967 represented purchase commitments of approximately $125,000,000 in excess of related deposits.

The estimated minimum annual rentals under long-term leases, with expiration dates ranging to 1991, were approximately $1,000,000 at December 31, 1966.

Note 4. Retirement Plans. The costs of retirement plans charged to operating expense in 1966 totaled $1,842,039, including $73,164 for past-service costs, thereby leaving approximately $622,000 unfunded at December 31, 1966.

Note 5. Options to Purchase Common Stock. During 1966, options for 11,500 shares were granted at an average option price of $45.00 a share under the company's stock option plan for officers. As of December 31, 1966, 200,900 shares of the corporation's authorized and unissued stock were reserved for the purposes of the plan and options were outstanding to purchase a total of 134,900 shares at option prices aggregating $5,354,860 (approximate fair market value on days of grant).

The proceeds from 9,100 shares issued upon exercise of options in 1966 were credited in the amount of $9,100 (par value) to common stock and in the amount of $350,350 to capital in excess of par value. The related market value at dates first exercisable was $388,669 and at dates exercised was $468,625.

The options are generally exercisable in equal annual increments over a five-year period.

Note 6. Depreciation. The estimated useful lives of propjet Electra aircraft were extended to December 31, 1967. Accordingly, depreciation expense for the year 1966 was decreased by approximately $1,500,000, increasing net income by approximately $780,000.

Note 7. Proposed Merger. In November 1966, the company and Pacific Northern Airlines, Inc. entered into an Agreement of Merger. Under the terms of the Agreement, which is subject to approval of the shareholders of both companies, the Civil Aeronautics Board, other state and federal agencies, and holders of the companies' long-term debt, Western will issue one common share in exchange for two shares of Pacific Northern stock. Accordingly, 578,454 shares of the company's common stock were reserved at December 31, 1966 for issuance in connection with said merger.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
Los Angeles, Calif. 90014

The Board of Directors
Western Air Lines, Inc.:

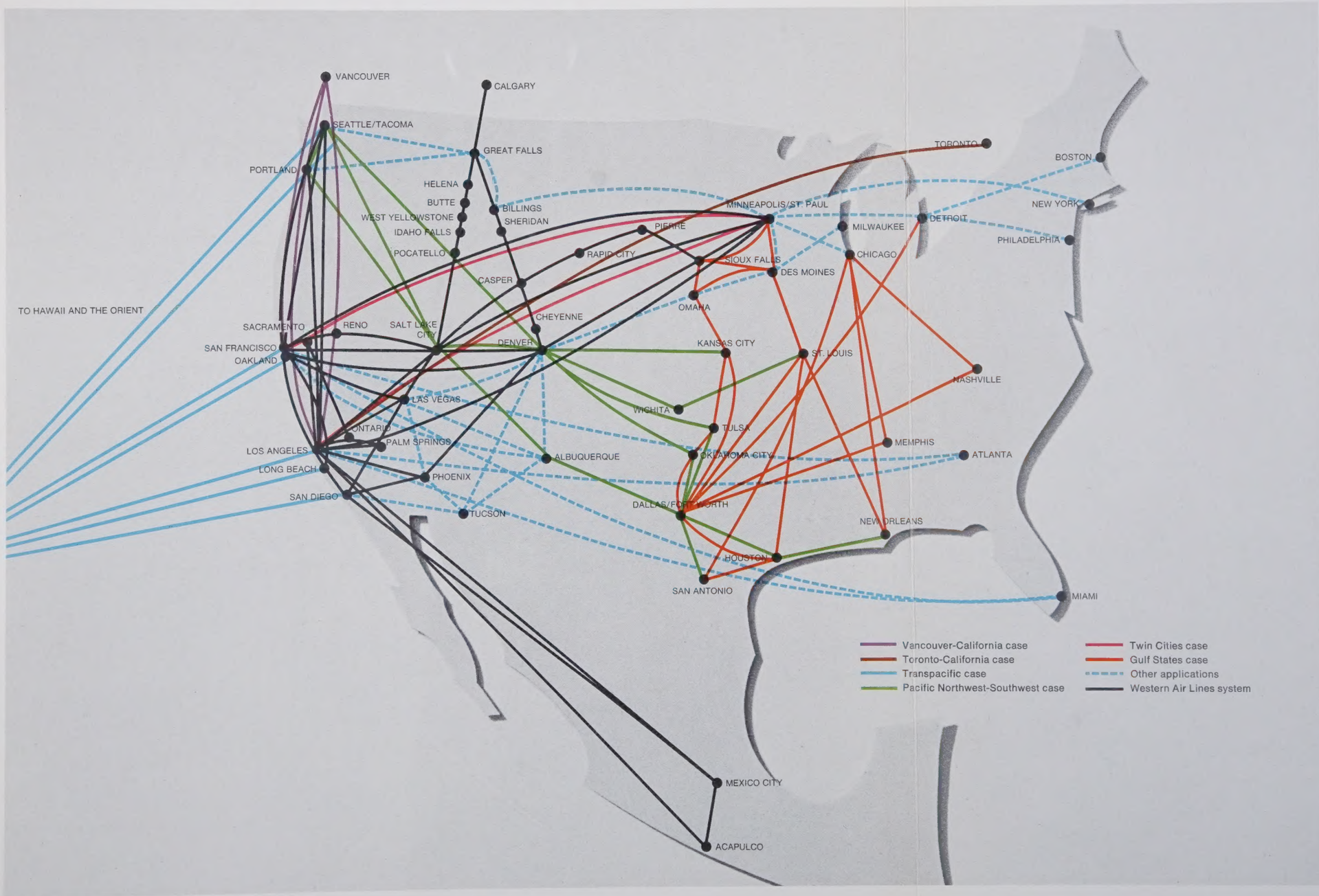
We have examined the balance sheet of Western Air Lines, Inc. as of December 31, 1966 and the related statement of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for 1965.

In our opinion, the accompanying balance sheet and statement of earnings and retained earnings present fairly the financial position of Western Air Lines, Inc. at December 31, 1966 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and application of funds for the year ended December 31, 1966 presents fairly the information shown therein.

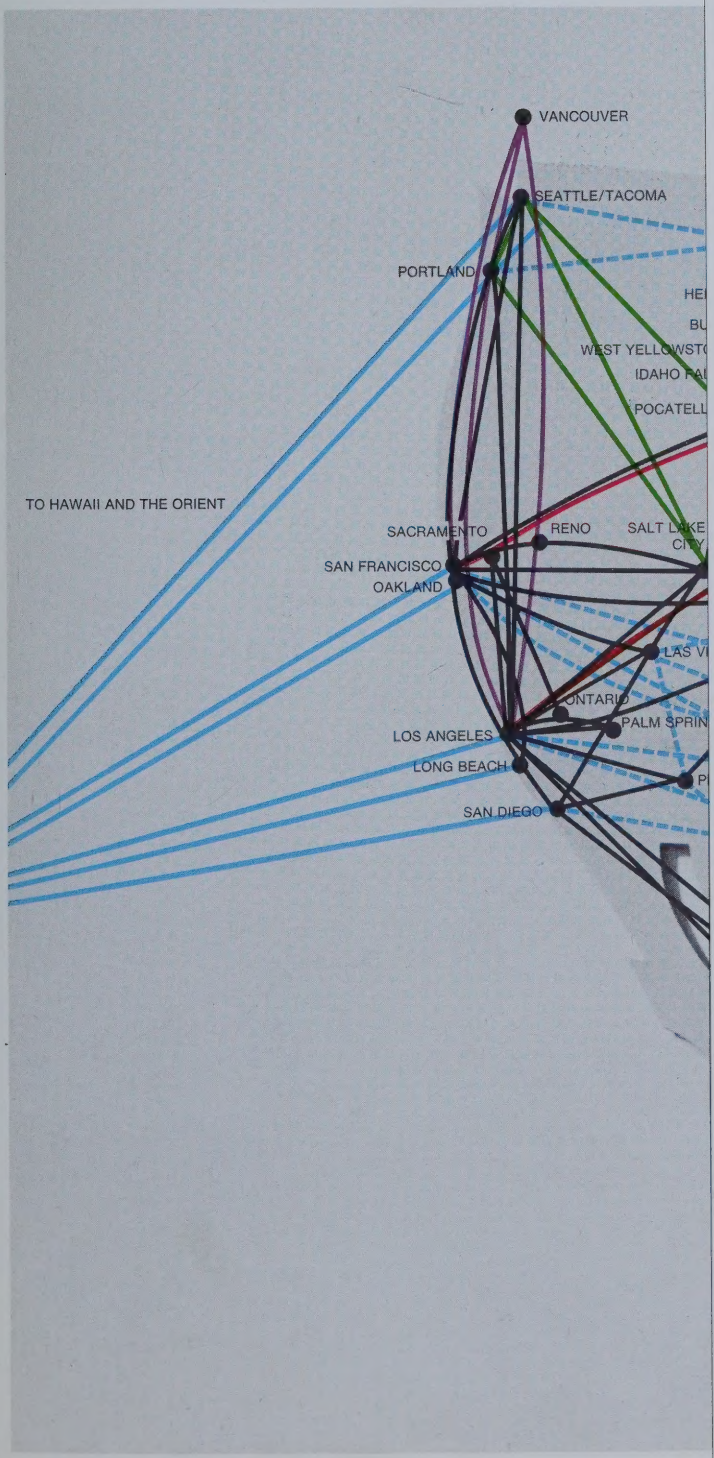
PEAT, MARWICK, MITCHELL & CO.

February 13, 1967

Western Air Lines Routes and Proposed Routes



Western Air Lines Routes and Proposed Routes



Corporate Officers

Terrell C. Drinkwater, *President and Director*

Stanley R. Shatto, *Executive Vice President–Transportation and Director*

J. Judson Taylor, *Senior Vice President, Treasurer and Director*

Arthur F. Kelly, *Senior Vice President–Sales*

Dominic P. Renda, *Senior Vice President–Legal and Corporate Secretary*

Marvin W. Landes, *Senior Vice President (on leave of absence)*

Jack M. Slichter, *Vice President–Government and Industry Affairs Division*

John R. Summerfield, *Vice President–Economic Planning Division*

Richard B. Ault, *Vice President–Engineering*

Harold W. Caward, *Vice President–Flight Operations*

Charles J. J. Cox, *Vice President and Controller*

Richard P. Ensign, *Vice President–In Flight Services*

Anton B. Favero, *Vice President–Maintenance*

Bert D. Lynn, *Vice President–Advertising and Sales Promotion*

Luis Pasquel, *Vice President–Mexico*

Philip E. Peirce, *Vice President–Ground Services*

Terrell S. Shrader, *Vice President–Industrial Relations*

Ray Silvius, *Vice President–Public Relations*

Willis R. Balfour, *Assistant Vice President–Agency and Interline Sales*

Henry M. deButts, *Assistant Vice President–Government and Industry Affairs*

Charles S. Fisher, *Assistant Vice President–Flight Schedules*

Rick O. Hammond, *Assistant Treasurer*

James L. Mitchell, *Assistant Vice President–Research*

Eugene D. Olson, *Assistant Vice President–Data Processing and Systems*

John W. Simpson, *Assistant Secretary and Director of Law*

Peter P. Wolf, *Assistant Vice President–Communications*

General Offices

Western Air Lines Building, 6060 Avion Drive
Los Angeles International Airport
Los Angeles, California 90009

Registrars

Bank of America National Trust & Savings Assn.
111 West Seventh Street, Los Angeles, California 90014

The Chase Manhattan Bank
1 Chase Manhattan Plaza, New York, New York 10015

Stock Transfer Agents

Security First National Bank
124 West Fourth Street, Los Angeles, California 90014

Chemical Bank New York Trust Co.
20 Pine Street, New York, New York 10015

Stock Listings

Listed and traded on
New York Stock Exchange and
Pacific Coast Stock Exchange

General Counsel

Hugh W. Darling
Darling, Mack, Hall & Call
523 West Sixth Street, Los Angeles, California 90014

Auditors

Peat, Marwick, Mitchell & Co.
629 South Spring Street, Los Angeles, California 90014

Annual Meeting

Fourth Thursday in April